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June 15, 2007

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

RE: APS General Rate Case, Power Supply Adjustor; Docket Nos. E-01345A-05-0816, E-01345A-05-0826
and E-01345A-05-0827

Dear Sir or Madame:

Attached please find Arizona Public Service Company's document demonstrating the operation of Commissioner Mayes' amendment #8 as approved in Open Meeting June 14, 2007.

Sincerely,

Barbara Klemstine

BK/dst

Attachments

CC: Parties of Record

Arizona Corporation Commission
DOCKETED
JUN 15 2007

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DOCKET CONTROL

Operation of Mayes Amendment #8

- The annual change in the sum of all effective PSA rates can not be greater than +/- 4 mils.
- The PSA rates included in the application of the cap are:
 - The Forward Component
 - The Historical Component
 - Any and all Transition Components
 - The "Old PSA" Annual Adjustor
- The cap applies to each PSA year, which is defined as February 1 of each year through January 31 of the following calendar year.
- The bandwidth established by the cap is measured by summing all PSA rates that are effective at the end of each PSA year and adding/subtracting 4 mils from that sum.
- The first application of the 4 mil cap will be in February 2008 with the adoption of a new Forward Component and a new Historical Component.
- In extraordinary circumstances, the company may seek Commission authorization to exceed the 4 mil cap.

6/15/2007

Operation of Mayes Amendment #8

- PSA rates in effect at 7/1/07 per prior Decisions and the Recommended Opinion and Order as modified by Mayes Amendment #8 are:
 - 4.0¹ mils – “Old PSA” Annual Adjustor continues collecting 2006 costs
 - 1.1² mils – Transition Component set to collect allowable 2005 Palo Verde outage costs over the July 2007 – June 2008 period
 - 0.0 mil – Forward Component
 - 0.0 mil – Historical Component
 - 5.1 mils – Total of PSA Rates in effect at 7/1/07 and in place at end of 2007 PSA year
- 2/1/08 – Next PSA Rate Change
 - 4.0¹ mil Old PSA Annual Adjustor expires
 - New forward Component based on projected 2008 costs becomes effective
 - New Historical Component to collect 2007 undercollections becomes effective
 - Maximum possible of all PSA Rates for 2008 per the 4 mil annual cap is 4 mils + the sum of all PSA Rates in effect at January 2008
- 6/30/08 – Transition Component Expires, no other known changes
- 2/1/09 – Next PSA Rate Change
 - New forward Component based on projected 2009 costs becomes effective
 - New Historical Component to collect 2008 undercollections becomes effective
 - Maximum possible of all PSA Rates for 2009 per the 4 mil annual cap is 4 mils + the sum of all PSA Rates in effect at January 2008

¹ Actual Adjustor is 3.987 mils.

² Approximate value assuming Recommended Opinion and Order is adopted.